

WALLER LANSDEN DORTCH & DAVIS, PLLC

WALLER LANSDEN DORTCH & DAVIS PLLC
THE CHESAPEAKE BUSINESS CENTRE
1616 WESTGATE CIRCLE, SUITE 106
BRENTWOOD TENNESSEE 37027 8019
(615) 844-6212

WALLER LANSDEN DORTCH & DAVIS LLP
AFFILIATED WITH THE PROFESSIONAL LIMITED LIABILITY COMPANY
520 SOUTH GRAND AVENUE SUITE 800
LOS ANGELES CALIFORNIA 90071
(213) 362 3680

NASHVILLE CITY CENTER
511 UNION STREET, SUITE 2700
POST OFFICE BOX 198966
NASHVILLE, TENNESSEE 37219-8966

(615) 244-6380
FAX (615) 244-6804
www.wallerlaw.com

WALLER LANSDEN DORTCH & DAVIS PLLC
809 SOUTH MAIN STREET
POST OFFICE BOX 1035
COLUMBIA TENNESSEE 38402-1035
(931) 388 6031

D. Billye Sanders
(615) 850-8951
billye.sanders@wallerlaw.com

January 4, 2005

VIA HAND DELIVERY

Pat Miller, Chairman
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37219

Re: Petition of Chattanooga Gas Company for Approval of Franchise
Agreement with Cleveland Tennessee
Docket No. 04-00231

Dear Chairman Miller:

Enclosed you will find original and thirteen copies (13) of the pre-filed
testimony of Steve Lindsey on behalf of Chattanooga Gas Company and Joe Cate on
behalf of the City of Cleveland, Tennessee.

Sincerely,



D. Billye Sanders
Attorney for Chattanooga Gas
Company

DBS/hmd

cc: Steve Lindsey
Elizabeth Wade, Esq.
Archie Hickerson

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2005 JAN -4 PM 1:49
T.R.A. DOCKET ROOM

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

IN RE: PETITION OF CHATTANOOGA)
GAS COMPANY FOR APPROVAL OF)
FRANCHISE AGREEMENT WITH)
CITY OF CLEVELAND, TENNESSEE)

Docket No. 04-00231

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**DIRECT TESTIMONY OF
STEVE LINDSEY**

Q: Please state your name, place of employment and title.

A: My name is Steve Lindsey. I am employed by Chattanooga Gas Company
("Chattanooga"), as Vice President of Operations.

**Q: In your capacity as Vice President of Operations for Chattanooga, are you
familiar with the natural gas distribution system operated by Chattanooga in
Cleveland, Tennessee?**

A: Yes. I am very familiar with the operation in Cleveland and the other adjoining
communities that are served by the system. I am also familiar with the negotiation
of the new franchise agreement with Cleveland, Tennessee, embodied in
Ordinance No 2004-05 that was passed by the City Council on April 2, 2004
("the Ordinance" or "Franchise Agreement").

Q: Please give the Authority an overall description of the Cleveland, Tennessee system and the customers served by Chattanooga.

A: The total number of miles of pipe in the Cleveland, Tennessee system which serves customers inside the City is approximately 199.8 miles. There are approximately 8, 211 customers located within the city limits served by the natural gas distribution system owned and operated by Chattanooga. Of that amount, approximately 82.2 % are residential customers and 17.8 % are commercial and industrial customers. Without access to these public rights of way, Chattanooga could not adequately maintain, replace and/or operate its distribution system

Q: Has Chattanooga operated a natural gas transmission and distribution system in Cleveland for a number of years?

A: Yes, Chattanooga and its predecessors have operated for many years in Cleveland under various Franchise Agreements with the City. Each of these agreements has allowed Chattanooga to operate a gas transmission and distribution system within Cleveland and to use the public rights of way of the City for its distribution system and related plant and access thereto.

Q: Please give a brief summary of the chronology relating to the Franchise Agreement

under which Chattanooga has operated in Cleveland for the past several years.

A: On March 27, 1984, Cleveland passed an Ordinance granting Chattanooga a franchise to use the public rights-of-way for the purposes of operating and maintaining its natural gas distribution system. The 1984 franchise was for a term of twenty (20) years, and required a franchise fee of two (2%) of the annual gross revenues from Chattanooga's sale of gas to customers located within the city limits. This agreement was approved by the Tennessee Public Service Commission in its order issued July 12, 1984 in Docket U-84-7309. Since that 1984 franchise was due to expire in the summer of 2004, Chattanooga met with officials of the City of Cleveland, to discuss beginning negotiating several terms and conditions for a renewed franchise, including the fee. Representatives of the Company and the City met on a number of occasions to negotiate terms and conditions with respect to the franchise.

Q: Were any changes made to the existing agreement?

A. Yes. The major changes are listed below:

First, the parties agreed to fix the franchise fee at five (5 %) of gross receipts received from sales of gas to the Company's customers within the environs of the City of Cleveland.

Second, Chattanooga also wished to revise the payment schedule from monthly to quarterly. Therefore, the franchise fee payments will be made on a quarterly as opposed to a monthly basis.

Third, the agreement allows the City to have access at reasonable times to the books of the Company for the purpose of ascertaining and/or auditing the amount of fees due the City, and provides that Chattanooga Gas Company shall furnish the City an annual report showing the amount of gross revenues from its sales of gas within the City

Fourth, the agreement requires that if the Company desires to sell the assets of its gas system located within the City of Cleveland as a stand-alone transaction and not as a sale of its larger gas system, it must offer the City the opportunity to buy those assets located and situated in the City on the same terms as being offered to the other party.

Finally, Chattanooga Gas Company will provide service personnel and equipment based in Cleveland and/or Bradley County, Tennessee to respond to customer service calls from locations within the City, and shall provide the local public service agencies the Company's toll-free emergency telephone number and a listing of direct local telephone and pager numbers of local Company agents to

contact in the event of an emergency. The Company shall also have trained personnel available 24 hours a day, 365 days per year, who will promptly respond to emergency calls

Q: Was this new Franchise Agreement, including the changes discussed above, the product of an arms-length negotiation process between Cleveland and Chattanooga?

A: Yes, Cleveland and Chattanooga engaged in negotiations over an extended period of time prior to reaching an agreement in this matter. There was significant give and take on both sides during the negotiation process.

Q: What is your opinion in regard to the necessity of the approval of this agreement?

A: The Franchise Agreement is necessary and proper for the public convenience and properly conserves and protects the public interest of the citizens of Cleveland served by Chattanooga

Q: Does this conclude your testimony?


A Yes.

VERIFICATION

STATE OF TENNESSEE)

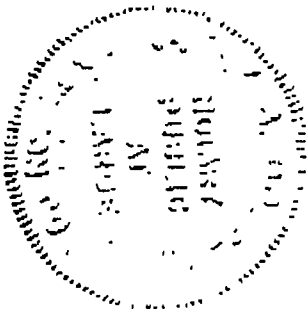
COUNTY OF HAMILTON)

I, Steven L. Lindsey, being duly sworn state that I am the Vice President – Operations of Chattanooga Gas Company, the Petitioner in the subject proceeding; that I am authorized to testify on behalf of Chattanooga Gas Company; and that the foregoing testimony is true and correct to the best of my knowledge, information and belief.


Steve L. Lindsey

Sworn and subscribed before me this 4th day of January, 2005.

Kathryn B Douglas
Notary Public

My Commission Expires : My Commission Expires March 25, 2006

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

IN RE. PETITION OF CHATTANOOGA)
GAS COMPANY FOR APPROVAL OF)
FRANCHISE AGREEMENT WITH)
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**DIRECT TESTIMONY OF
JOE CATE**

Q: Please state your name and title.

A: My name is Joe Cate I am the City Manager of Cleveland, Tennessee

Q: What is the purpose of your testimony?

A: The purpose of my testimony is to provide information to support the petition filed by Chattanooga Gas Company ("Chattanooga") for the approval of Ordinance No. 2004-05 that was passed by the City Council on April 2, 2004 conveying a franchise from Cleveland to Chattanooga ("the Ordinance" or "Franchise Agreement").

Q: Were you involved in the negotiations between Cleveland and Chattanooga over the terms of the Ordinance which is presently pending before the Authority for approval?

A: Yes, I was involved in the negotiation process along with the attorneys representing Cleveland.

In discussions with Chattanooga, it became apparent that Chattanooga was interested in extending the agreement between Cleveland and Chattanooga that was due to expire during the summer of 2004. That agreement provided that Chattanooga compensate Cleveland for the use of its right of ways by paying a two (2%) franchise fee on revenues received from sales of gas within the environs of the City of Cleveland. Accordingly, there were several discussions with Chattanooga concerning the terms and conditions of a new Franchise Agreement, which, went through several drafts before the parties agreed to the final version which is presently pending before the Authority for approval. The new agreement grants Chattanooga a franchise for a twenty (20) year period and imposes a five percent (5 %) fee on the annual gross revenues received by Chattanooga from the sale of gas to customers located within the environs of Cleveland. It is my understanding that this fee is within the reasonable range of fee percentages previously approved by the Authority.

Q: Were there other issues in addition to the franchise fee which were on the table for consideration?

A: Yes Under the existing franchise, the fee payments were made on a monthly basis. In order to more efficiently manage its operations, Chattanooga Gas Company wanted to change from monthly payments to quarterly payments. We, the City, wished to have a mechanism to ensure that the franchise fee was being properly applied, assurance that the Company maintained sufficient personnel and equipment based in Cleveland and/or Bradley County, Tennessee to respond to customer service calls within the City, and the right to purchase the system within Cleveland if the Company proposed to sell to another party. In my meetings with Steve Lindsey and Larry Buie, we discussed these issues.

Q: Did Chattanooga and Cleveland eventually agree on a modification of the franchise?

A: Yes, we did reach an agreement which is embodied in Ordinance No. 2004-05 that was passed by the City Council on April 2, 2004. By its terms, Ordinance No 2004-05 supersedes the ordinance adopted in 1984. The new Franchise Agreement provides for quarterly payments of the franchise fee and gives Chattanooga an additional twenty (20) years from the date of passage

The new agreement also provides that the City shall have access to the books of the Company for the purpose of ascertaining and/or auditing the amount of the fee due the City. In addition the new agreement provides that if the Company desires to sell the assets of its gas system within the City of Cleveland as a stand-alone transaction and not as a sale of its larger system, then the Company must offer the

City of Cleveland the opportunity to buy those assets located within the City on the same terms as some other party. Under the new agreement, the Company is also required to provide service personnel and equipment based in Cleveland and/or Bradley County, Tennessee to respond to customer service calls from locations within the City and provide the local public service agencies the Company's toll-free emergency telephone number and a listing of direct local telephone and pager numbers of local Company agents to contact in the event of an emergency. The Company shall also have trained personnel available 24 hours a day, 365 days per year, who will promptly respond to emergency calls.

Q: In your opinion, is the continued operation by Chattanooga under the Ordinance submitted for approval to the Authority in this proceeding in the public interest?

A: Yes, the Ordinance which grants the franchise to Chattanooga is necessary and proper for the public convenience and properly serves and protects the public interest of the citizens of Cleveland, Tennessee. As an authorized representative of Cleveland, I encourage the Authority to approve the petition.

Q: Does this conclude your testimony?

A: Yes.